

**Seville Township  
Gratiot County, Michigan**

**FINANCIAL STATEMENTS**

**March 31, 2008**

Seville Township  
Gratiot County, Michigan  
March 31, 2008

Rodger Grant

Supervisor

John Schuiling

Clerk

Karmen Kerr

Treasurer

Colleen Brantley

Trustee

John Gott

Trustee

Seville Township  
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March 31, 2008

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board  
Seville Township  
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the discretely present component unit of Seville Township, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the discretely presented component unit of Seville Township, Michigan as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Seville Township's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 15, 2008

Seville Township  
Management's Discussion and Analysis  
For the Fiscal Year Ended March 31, 2008

We, the Board of Seville Township, offer citizens of the Township our financial statements with the narrative overview and analysis of the financial activities of Seville Township for the fiscal year ended March 31, 2008

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of Seville Township as a whole, and present a longer-term view of the Township's finances.

Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

**Financial Highlights**

The unrestricted net assets of Seville Township exceeded its liabilities at the close of the current fiscal year by \$343,634 which may be used to meet the Township's ongoing obligations to citizens and creditors.

Additionally, the Township's governmental funds reported an ending fund balance of \$301,075, a decrease of \$27,861 from the prior year fund balance.

**Township Highlights**

- Seville Township continued to reimburse the local First Responders for their emergency services provided to the township.
- Seville Township improved the parking around the township hall.
- Seville Township obtained services for fence repairs and new fence installation around the cemetery and township hall property.
- Seville Township completed the clean up of the purchased lot in Riverdale and sold the property with the services of a local realtor.
- Seville Township continued to provide a spring time free large item and general trash disposal in Elwell and Riverdale for township residents.
- The township continued the annual donation to assist the Seville Library.
- Seville Township participated in the Satellite system proposed for Gratiot County townships.
- Seville Township joined as a supporting member of the Gratiot County Master Plan.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements** - The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, and community and economic development.

### **The Township as a Whole**

The following table shows, in a condensed format, the net assets as of March 31, 2008 and March 31, 2007.

	March 31,	
	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current and other assets	\$ 301,075	\$ 320,710
Capital assets	<u>50,785</u>	<u>59,369</u>
Total assets	351,860	380,079
<b>Liabilities</b>		
Current liabilities	8,226	-
<b>Net assets</b>		
Invested in capital assets	50,785	59,369
Unrestricted	<u>292,849</u>	<u>320,710</u>
Total net assets	<u>\$ 343,634</u>	<u>\$ 380,079</u>

The Township's total net assets were \$343,634 at March 31, 2008. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$292,849 at the end of the fiscal year. The net assets invested in capital assets were \$50,785.

The following table shows the changes in net assets for the year ended March 31, 2008 and March 31, 2007.

	March 31,	
	<u>2008</u>	<u>2007</u>
<b>Revenue</b>		
Program revenue		
Charges for services	\$ 9,111	\$ 8,998
Operating grants and contributions	3,805	3,841
General revenue		
Property taxes	35,900	34,124
State shared revenue	164,595	164,311
Investment earnings	7,592	5,499
Other	<u>5,463</u>	<u>3,032</u>
Total revenues	226,466	219,805

**Program Expenses**

General government	\$ 97,682	\$ 74,858
Public safety	64,698	76,331
Public works	95,663	56,438
Community and economic development	<u>4,868</u>	<u>5,127</u>
Total program expenses	<u>262,911</u>	<u>212,754</u>
Change in net assets	<u>\$( 36,445 )</u>	<u>\$ 7,051</u>

**Fund financial statements** - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers will better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Notes to the financial statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information** - In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* as required by GASB statement 34 regarding the Township's budgetary comparison of the general fund. This supplementary information is contained behind its own tab following the notes to financial statements.

**Capital Assets**

At the end of the fiscal year, the Township had approximately \$195,971 invested in capital assets, including land, buildings, office equipment and software, and voting machines. There was \$145,186 in accumulated depreciation on these assets with a resulting investment in capital assets (net book value) of \$50,785. There were no additions to capital assets during the year. See Note C in the financial statements for more details.

**Current Economic Factors**

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan is experiencing significant budget problems, and as they look for solutions, revenue sharing continues to be under attack. With the increases in other revenues, it has been equal to our loss of revenue in the past, but we can not withstand a reduction in revenue sharing.

### **Requests for Information**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances and to demonstrate the township's accountability for the money it receives. If you have questions about this report or need additional information,. If you have questions about this report or need additional information, we welcome you to contact a Seville Township board member at 989-463-6180, or write to us at:

**Seville Township  
8143 W. Madison Road  
Elwell, MI 48832**

## **BASIC FINANCIAL STATEMENTS**

Seville Township

STATEMENT OF NET ASSETS

March 31, 2008

	<u>Primary Government Governmental Activities</u>	<u>Component Unit (Library)</u>
<b>ASSETS</b>		
Current		
Cash	\$ 109,551	\$ 11,018
Investments	165,618	10,247
Interest receivable	357	-
Due from other governmental units	<u>25,549</u>	<u>-</u>
Total current assets	301,075	21,265
Noncurrent assets		
Capital assets not being depreciated	32,414	-
Capital assets, net of accumulated depreciation	<u>18,371</u>	<u>8,085</u>
Total noncurrent assets	<u>50,785</u>	<u>8,085</u>
TOTAL ASSETS	351,860	29,350
<b>LIABILITIES</b>		
Current		
Accounts payable	<u>8,226</u>	<u>-</u>
<b>NET ASSETS</b>		
Invested in capital assets	50,785	8,085
Unrestricted	<u>292,849</u>	<u>21,265</u>
TOTAL NET ASSETS	<u>\$ 343,634</u>	<u>\$ 29,350</u>

See accompanying notes to financial statements.

Seville Township  
STATEMENT OF ACTIVITIES  
Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities	Component Unit Activities
Primary government:					
Governmental activities					
General government	\$ 97,682	\$ 8,571	\$ -	\$ (89,111)	\$ -
Public safety	64,698	540	-	(64,158)	-
Public works	95,663	-	3,805	(91,858)	-
Community and economic development	4,868	-	-	(4,868)	-
Total primary government	<u>\$ 262,911</u>	<u>\$ 9,111</u>	<u>\$ 3,805</u>	(249,995)	-0-
Component unit:					
Library	<u>\$ 44,974</u>	<u>\$ -0-</u>	<u>\$ 2,117</u>	-	(42,857)
				(249,995)	(42,857)
General revenues:					
Property taxes				35,900	-
State shared revenue				164,595	-
Penal fines				-	42,631
Investment earnings				7,592	-
Miscellaneous				5,463	9,369
Total general revenues				<u>213,550</u>	<u>52,000</u>
Change in net assets				(36,445)	9,143
Net assets, beginning of the year				<u>380,079</u>	<u>20,207</u>
Net assets, end of the year				<u>\$ 343,634</u>	<u>\$ 29,350</u>

See accompanying notes to financial statements.

Seville Township

GOVERNMENTAL FUND BALANCE SHEET

March 31, 2008

	<u>General</u>
ASSETS	
Cash	\$ 109,551
Investments	165,618
Interest receivable	357
Due from other governmental units	<u>25,549</u>
TOTAL ASSETS	<u><u>\$ 301,075</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 8,226
FUND BALANCE	
Unreserved	
Designated for:	
Subsequent year's expenditures	58,943
Fire equipment	3,688
Undesignated	<u>230,218</u>
TOTAL FUND BALANCE	<u>292,849</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 301,075</u></u>

See accompanying notes to financial statements.

Seville Township

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

March 31, 2008

**Fund balance - governmental fund** \$ 292,849

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 195,971	
Accumulated depreciation is	<u>(145,186)</u>	
Capital assets, net		<u>50,785</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 343,634</u></u>

See accompanying notes to financial statements.

Seville Township

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -  
GOVERNMENTAL FUND

Year Ended March 31, 2008

	<u>General</u>
REVENUES	
Taxes	\$ 43,171
Licenses and permits	1,750
Intergovernmental	168,400
Charges for services	1,300
Interest and rents	7,592
Other	<u>4,253</u>
TOTAL REVENUES	226,466
EXPENDITURES	
Current	
General government	90,520
Public safety	63,276
Public works	95,663
Community and economic development	<u>4,868</u>
TOTAL EXPENDITURES	<u>254,327</u>
NET CHANGE IN FUND BALANCE	(27,861)
Fund balance, beginning of year	<u>320,710</u>
Fund balance, end of year	<u><u>\$ 292,849</u></u>

See accompanying notes to financial statements.

Seville Township

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

**Net change in fund balance - governmental fund** \$ (27,861)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (8,584)

**Change in net assets of governmental activities** \$ (36,445)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Seville Township is located in Gratiot County, Michigan and has a population of approximately 2,375. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees and provides services to its residents in many areas including general government, fire protection, and property tax collections.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Seville Township and its component unit, an entity for which the government is considered to be financially accountable.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Seville Township contain all the funds controlled by the Township Board.

2. Discretely Presented Component Unit

The component unit column in the financial statements includes the financial data of the Township's component unit (Library). The Library is reported in a separate column to emphasize that, while legally separate, Seville Township remains financially accountable for this entity or the nature and significance of the relationship between this entity and Seville Township is such that the exclusion of the Library would render the financial statements misleading or incomplete. The governing body of the Library is elected and the Library's budget is subject to the approval of the Township Board. The Library is included in the Township's audit and is not audited separately.

3. Joint Venture

Rural Urban Fire Control Board - The Township is a member of the Rural Urban Fire Control Board, which is a joint venture between the City of Alma and the Townships of Arcada, Pine River, Seville, and Sumner. The Board provides fire protection services to the Rural Urban Fire District. The membership of the Board is composed of seven members, of which the Township is represented by the Supervisor. The Board is responsible for preparing an annual budget (which is approved by the City and the Townships) and to carry out all activities of the Board.

The Board has established a funding formula based on assessed valuation, population, and runs. The fire fighting equipment is owned jointly by the member municipalities. The City of Alma provides day-to-day management oversight of this joint venture.

The financial activity of the Board is reported in the City of Alma's financial statements as a special revenue fund.

For the year ended March 31, 2008, the Township's contribution to the Board was \$58,612.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Township as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements).

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major fund of the Township is the General Fund. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.

5. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Budgets and Budgetary Accounting**

The General Fund budget was prepared on a basis consistent with the modified accrual basis used to reflect actual results.

The Township employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. The budget was not amended during the current year.

**8. Cash and Investments**

Cash consists of various checking accounts. Investments consist of certificates of deposit with an initial maturity of greater than 90 days. Cash and investments are recorded at market value.

**9. Property Tax**

Seville Township bills and collects its own property taxes. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied by the Township on December 1 and are payable without penalty through September 15. All real property taxes not paid to the Township by April 15 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Township property tax revenues are recognized as revenues in the fiscal year levied.

The Township is permitted to levy taxes up to 1.08 mills (\$1.08 per \$1,000 of assessed valuation) for general governmental services. For the year ended March 31, 2008, the Township levied 0.8643 mills for general governmental services. The total taxable value for the 2007 levy for property within the Township was \$41,248,720.

**10. Capital Assets**

Capital assets include land, buildings, and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**10. Capital Assets - continued**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment and machinery	2 - 10 years
Vehicles	10 years
Buildings	5 - 25 years

**11. Comparative Data**

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

**NOTE B: CASH**

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE B: CASH - CONTINUED**

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, the carrying amounts of the Township's deposits were \$296,434 and the bank balance was \$291,224 of which \$218,854 was covered by federal depository insurance. The remaining balance of \$72,370 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2008, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Custodial credit risk

The Township has not adopted a policy that addresses custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer.

The cash and investments referred to above have been reported in the basic financial statements based on the criteria in Note A. The following summarizes the categorization of these amounts as of March 31, 2008:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash	\$ 109,551	\$ 11,018	\$ 120,569
Investments	<u>165,618</u>	<u>10,247</u>	<u>175,865</u>
	<u>\$ 275,169</u>	<u>\$ 21,265</u>	<u>\$ 296,434</u>

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2008 was as follows:

**PRIMARY GOVERNMENT**

	<u>Balance April 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2008</u>
Capital assets not being depreciated				
Land	\$ 32,414	\$ -	\$ -	\$ 32,414
Capital assets being depreciated				
Building	85,837	-	-	85,837
Equipment and machinery	43,587	-	-	43,587
Vehicles	<u>34,133</u>	<u>-</u>	<u>-</u>	<u>34,133</u>
Total capital assets being depreciated	163,557	-0-	-0-	163,557
Less accumulated depreciation for:				
Building	( 81,185 )	( 1,313 )	-	( 82,498 )
Equipment and machinery	( 22,706 )	( 5,849 )	-	( 28,555 )
Vehicle	<u>( 32,711 )</u>	<u>( 1,422 )</u>	<u>-</u>	<u>( 34,133 )</u>
Total accumulated depreciation	<u>( 136,602 )</u>	<u>( 8,584 )</u>	<u>-0-</u>	<u>( 145,186 )</u>
Net capital assets being depreciated	<u>26,955</u>	<u>( 8,584 )</u>	<u>-0-</u>	<u>18,371</u>
Total net capital assets	<u>\$ 59,369</u>	<u>\$ ( 8,584 )</u>	<u>\$ -0-</u>	<u>\$ 50,785</u>

Depreciation expense was charged to activities of the following governmental activities:

General government	\$ 7,162
Public safety	<u>1,422</u>
Total depreciation expense	<u>\$ 8,584</u>

**COMPONENT UNIT**

	<u>Balance April 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2008</u>
Capital assets being depreciated				
Equipment and machinery	\$ 17,821	\$ 5,648	\$ -	\$ 23,469
Less accumulated depreciation for:				
Equipment and machinery	<u>( 12,498 )</u>	<u>( 2,886 )</u>	<u>-</u>	<u>( 15,384 )</u>
Total net capital assets	<u>\$ 5,323</u>	<u>\$ 2,762</u>	<u>\$ -0-</u>	<u>\$ 8,085</u>

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE D: RISK MANAGEMENT**

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including liability, wrongful acts, auto, crime, inland marine, and property losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township is exposed to various risks of loss for workers' compensation claims for which the Township carries commercial insurance.

**NOTE E: PENSION PLAN**

Seville Township is the sponsor of a defined contribution retirement plan for the sole benefit of its employees. The John Hancock Defined Contribution Pension Plan for Government Employees is a money purchase defined contribution pension benefit plan. Contributions are based on a preestablished wage-based contribution schedule.

All members of the Township Board and all employees of the Township are eligible.

Normal retirement age is 65 or, if later, completion of 10 years of participation in the plan. Benefits attributable to employer contributions shall be 100% vested upon a participant's death, disability, or normal retirement, or upon termination of the plan. Upon termination of a participant's service, for other than the above, such benefits shall vest 100% immediately. Early retirement age is 55 and any benefits will vest 100% upon early retirement.

The Township contributes 15% of eligible compensation. In addition, employees may make voluntary contributions on an after-tax basis in amounts ranging from 1% to 10% of compensation. Contributions to the plan during the fiscal year ended March 31, 2008, were \$8,305 contributed by the Township.

**NOTE F: FUND BALANCE DESIGNATIONS**

Designated fund balance indicates that portion of fund balance that the Township has set aside for specific purposes.

The following are the various fund balance designations as of March 31, 2008:

General Fund	
Designated for subsequent year's expenditures	\$ 58,943
Designated for fire equipment	<u>3,688</u>
	<u>\$ 62,631</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

Township of Seville

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 41,330	\$ 41,330	\$ 43,171	\$ 1,841
Licenses and permits	2,050	2,050	1,750	(300)
Intergovernmental	167,800	167,800	168,400	600
Charges for services	950	950	1,300	350
Interest and rents	5,000	5,000	7,592	2,592
Other	500	500	4,253	3,753
TOTAL REVENUES	217,630	217,630	226,466	8,836
EXPENDITURES				
Current				
General government	92,858	92,858	90,520	2,338
Public safety	69,000	69,000	63,276	5,724
Public works	95,500	102,500	95,663	6,837
Community and economic development	6,318	6,318	4,868	1,450
TOTAL EXPENDITURES	263,676	270,676	254,327	16,349
NET CHANGE IN FUND BALANCE	(46,046)	(53,046)	(27,861)	25,185
Fund balance, beginning of year	320,710	320,710	320,710	-0-
Fund balance, end of year	<u>\$ 274,664</u>	<u>\$ 267,664</u>	<u>\$ 292,849</u>	<u>\$ 25,185</u>

## **OTHER SUPPLEMENTARY INFORMATION**

Seville Township

Component Unit Fund

BALANCE SHEET - LIBRARY FUND

March 31, 2008

	<u>Library</u>
ASSETS	
Cash	\$ 11,018
Investment	<u>10,247</u>
TOTAL ASSETS	<u>\$ 21,265</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	
Unreserved - undesignated	<u>21,265</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 21,265</u>

Seville Township

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS - LIBRARY FUND

March 31, 2008

<b>Fund balance - governmental fund</b>	<b>\$ 21,265</b>
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Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 23,469	
Accumulated depreciation is	<u>(15,384)</u>	
Capital assets, net		<u>8,085</u>
<b>Net assets of governmental activities</b>		<b><u>\$ 29,350</u></b>

Seville Township

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -  
LIBRARY FUND

Year Ended March 31, 2008

	<u>Library</u>
REVENUES	
Intergovernmental	\$ 2,117
Fines and forfeits	42,631
Other	<u>9,369</u>
TOTAL REVENUES	54,117
EXPENDITURES	
Recreation and cultural	<u>47,736</u>
NET CHANGE IN FUND BALANCE	6,381
Fund balance, beginning of year	<u>14,884</u>
Fund balance, end of year	<u><u>\$ 21,265</u></u>

Seville Township

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF  
ACTIVITIES - LIBRARY FUND

Year Ended March 31, 2008

<b>Net change in fund balance</b>	<b>\$</b>	<b>6,381</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	5,648	
Depreciation expense		<u>(2,886)</u>	
Excess of capital outlay over depreciation expense			<u>2,762</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>		<b><u>9,143</u></b>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Members of the Township Board  
Seville Township  
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the discretely presented component unit of Seville Township as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated September 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Township prepares monthly financial reporting at the fund level. The annual audited financial statements for the year ended March 31, 2008 for the Township required few audit adjustments.

## PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The staff at Seville Township understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

## FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Township has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Township not developing a fraud risk assessment and monitoring program it is unable to assess the Township's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

*A material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters.

## DOUBLE ENTRY ACCOUNTING SYSTEM

During the course of our audit we noted that the Township does not utilize a double entry general ledger accounting system to record its financial transactions. In order to accurately track accounting information, and to aid in the generation of financial reports, this type of system is necessary. A similar issue was noted by other auditors in the Township's previous audit.

We recommend the Township establish and implement a double entry general ledger to account for all financial transactions and to facilitate financial reporting. We further recommend that significant balance sheet accounts, such as investments, accounts receivable, and accounts payable be periodically analyzed and recorded in the general ledger system.

## POLICIES AND PROCEDURES

During the course of our audit, we noted that the Township has not formally adopted written procedures and policies. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We recommend the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.
- b. Accounting policies and procedures manual - We recommend the Township document any accounting procedures that are currently in place and supplement this with any policies that may be required to support those procedures. These policies and procedures should include cash receipts and disbursement procedures, payroll procedures, criteria for establishing a fund, specific activities to be accounted for in each fund, any closing procedures necessary for the preparation of monthly/annual financial statements, purchasing, and obtaining competitive bids.
- c. Code of conduct - We recommend the Township adopt a code of conduct. The code should include a policy on conflicts of interest and the Township should require employees and Board members to periodically make a declaration of compliance.
- d. Capital asset policy - We recommend the Township adopt a capital asset policy which establishes a threshold for defining capital assets, authorizing the methods for acquiring and disposing of capital assets, and establishing useful lives and depreciation methods for each asset.

## INVESTMENT POLICY

During the course of our audit and through discussions with management, it was noted that the Township has not adopted an investment policy to address the issues required by MCL and the various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Township's funds. These resources are necessary for the delivery of the Township's services. Effective for the year ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We recommend the Township adopt an investment policy as required by MCL that addresses custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Township's financial statements by GASB Statement No. 40.

This report is intended solely for the information and use of management, the Members of the Township Board of Seville Township, others within the Township, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 15, 2008